

City of Scottsdale Economic Trends Report

**May 2005
City of Scottsdale
Economic Vitality Department**

Economic Trends Report

May 2005

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THE CITY OF SCOTTSDALE ECONOMIC TRENDS ANALYSIS

Introduction

The Economic Trends Analysis provides detailed information on the Scottsdale economy, giving the reader a summary of what sets Scottsdale apart from other metro Phoenix cities. The study presents a historical overview of local economic indicators, provides a comparison of Scottsdale to the balance of the Phoenix metro area.

The Economic Vitality Department welcomes your input and suggestions for changes and additions in future issues, and is pleased to grant permission to use excerpts from this material when credit is given to the City of Scottsdale.



EXECUTIVE SUMMARY

General

- ◇ 2005 is projected to be the strongest year for economic growth since September 11.
- ◇ Scottsdale, historically, has one of the lowest unemployment rates in the metropolitan area. In calendar year 2004, Scottsdale's average unemployment rate was 3.9 percent, lower than the Metro area rate.

Population/Demographics

- ◇ Scottsdale is the fourth largest city in the Phoenix metro area. During the 1990's, the City of Scottsdale experienced an average annual population growth rate of 5.6 percent. The Metro area experienced a lower growth rate of 4.7 percent during the same period. Since 2000, population growth rates in Scottsdale have slowed, with 2004 showing a population growth rate of just 1.6 percent.
- ◇ In 2000, the median household income in Scottsdale was 27 percent higher than the average median household income in the Phoenix metro area. Forecast data shows Scottsdale as the income leader in the Metro area.
- ◇ In Fiscal Year 2003/2004, the City assisted 14 companies in moving to or expand in Scottsdale, adding 2,143 jobs to the market.
- ◇ Scottsdale's employment base is highly diversified with business services, high technology, bio-medical, tourism, and retail all playing important roles in the economy. Major employers include: Scottsdale Healthcare, General Dynamics, Mayo Clinic, Scottsdale Unified School District, Caremark Health Systems, City of Scottsdale, DMS Direct Marketing, Rural Metro, Vanguard Group, Scottsdale Princess Resort, Scottsdale Insurance Company, and Dial Corporation.

Employment

- ◇ The Phoenix metro area added over 40,000 jobs in 2004, more than any other metropolitan areas except Washington D.C. and New York City.
- ◇ Metro area employment will see significant growth in 2005, the strongest growth being in construction and healthcare.

Building Activity

- ◇ Fiscal Year 03/04 showed an increase of residential building permits for the housing market in Scottsdale. A total of 2,013 residential units were permitted in FY03/04. Single-family residences accounted for 1,191 of the total units permitted.

Building Activity (continued)

- ◇ The value of Scottsdale's commercial building permits in calendar year 2004 was \$771,213,608.
- ◇ Commercial vacancy rates for industrial, office, and retail spaces in Scottsdale in 2004 were 10.9 percent, 17.8 percent, and 5.1 percent, respectively.
- ◇ Over the past year, the Original Scottsdale area (south of Indian School Rd, exclusive of Downtown) saw \$10.6 million in new projects completed. Another \$67 million in projects is either under construction or preparing for construction, and an additional \$9.2 million in projects has been proposed.
- ◇ Investment in Downtown Scottsdale over the past year was approximately \$550 million.

Tax Activity

- ◇ The total assessed value of Scottsdale property (the value on which property taxes are calculated) is second only to Phoenix in the State. Assessed valuation rose 184 percent over the last 10 years. Scottsdale has the highest assessed valuation per capita in the Metro area at \$18,274.
- ◇ Sales tax collections per capita for Scottsdale are consistently the highest of all Metro communities.

Tax Activity (continued)

- ◇ The property tax rate for the City of Scottsdale averages approximately 36 percent lower than property tax rates in other Metro area cities.
- ◇ Total sales tax collections for FY03/04 were \$118.3 million, 6.7 percent higher than FY02/03 collections.

Tourism, Education, Trends

- ◇ Tourism is Scottsdale's single largest industry and was responsible for \$7.4 million in bed tax receipts for the City of Scottsdale in 2004.
- ◇ The 2004 average hotel room rate was \$134.20.
- ◇ The average occupancy for Scottsdale/Paradise Valley hotels in 2004 was 66.6 percent.
- ◇ Scottsdale's K-12 education competes favorably in the Metro area, ranking considerably higher on standardized test scores than most other Metro area school districts.
- ◇ Scottsdale's general obligation bond rating by Fitch IBCA, Standard & Poor's Rating Service, and Moody's Investor Service is AAA. A high bond rating reflects the credit industry's faith in Scottsdale's ability to repay outstanding debt.

DEMOGRAPHIC OVERVIEW

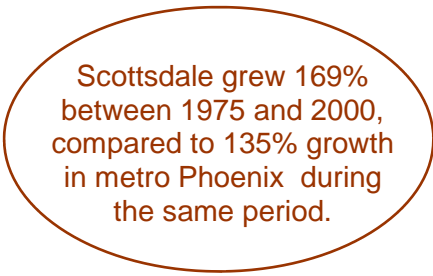
Comparisons of population and income for Scottsdale and other major cities in the Phoenix metro area (Phoenix, Mesa, Glendale, Chandler, Tempe, Gilbert, and Peoria), as well as for the Phoenix metro area as a whole, are important because they provide a view of the entire market area and allow analysis of market area trends.

Population

Scottsdale's population rose to 221,130 in 2004, a 1.6 percent increase over 2003. Scottsdale's population growth made up 6.3 percent of the Metro area's total population growth, behind Phoenix (40.2 percent), Mesa (12.7 percent), and Glendale (6.6 percent).

From 1990 to 2000, Scottsdale was the fourth fastest growing community in the Metro area, behind Gilbert, Peoria, and Chandler. During the 1990's, Gilbert grew an astonishing 319 percent at an annual average rate of approximately 32 percent per year. Peoria grew 131 percent at an annual average rate of 13 percent per year. Chandler grew 106 percent at an annual average rate of nearly 11 percent per year. And Scottsdale's population grew 15 percent at an annual average rate of nearly 11 percent per year.

Table 1 (pg. 10) and *Chart 1* (pg. 11) reflect the growth percentages of several Phoenix metro area communities. Scottsdale grew 163 percent between 1975 and 2000. Many other suburban communities in the Metro area experienced significantly higher growth rates during the 1975-2000 period; including Gilbert (3,439 percent), Peoria (1,153 percent), Chandler (782 percent), Mesa (296 percent), and Glendale (229 percent). Overall, metro Phoenix grew 135 percent during this 25-year period.



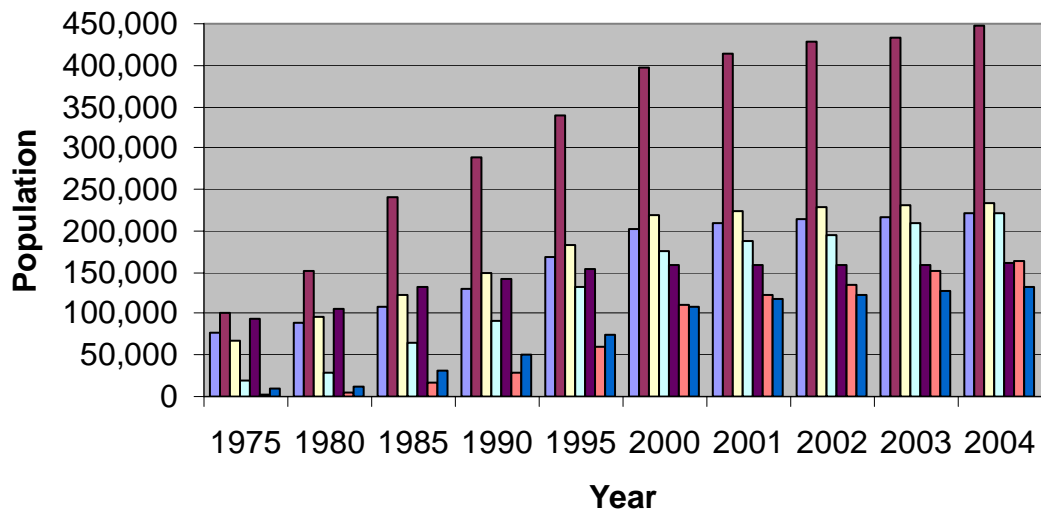
Scottsdale grew 169% between 1975 and 2000, compared to 135% growth in metro Phoenix during the same period.

Table 1
Population and Growth Rates

	Year	Scottsdale	Phoenix	Mesa	Glendale	Chandler	Tempe	Gilbert	Peoria	Metro Area
POP.	1975	77,107	668,046	100,086	66,585	20,025	94,300	3,100	8,651	1,217,500
	1980	88,364	789,704	152,453	96,988	29,673	106,743	5,717	12,171	1,509,052
	1985	108,447	873,400	239,587	122,392	63,817	132,942	16,180	30,324	1,814,700
	1990	130,069	983,403	288,091	148,134	90,533	141,865	29,188	50,675	1,952,447
	1995	168,176	1,149,417	338,117	182,615	132,360	152,821	59,338	74,565	2,551,765
	2000	202,705	1,321,045	396,375	218,812	176,581	158,625	109,697	108,364	2,862,909
	2004	221,130	1,416,055	447,130	233,330	220,705	160,820	164,685	132,300	3,524,175
	% of Maricopa County in 2004	6.30%	40.20%	12.70%	6.60%	6.30%	4.60%	4.70%	3.80%	100.00%
1975 - 2000 GROWTH RATES	Absolute Growth	130,038	652,999	296,289	152,227	156,556	64,325	106,549	99,713	1,645,409
	Percentage Growth	162.90%	97.70%	296.00%	228.60%	781.80%	68.20%	3438.90%	1152.60%	135.10%
	Annual Growth	6.50%	3.90%	1.80%	9.10%	31.30%	2.70%	137.60%	46.10%	5.40%
1990 - 2000 GROWTH RATES	Absolute Growth	72,636	337,642	108,284	70,678	86,048	16,760	80,509	57,746	910,462
	Percentage Growth	55.80%	34.30%	37.60%	47.70%	95.00%	11.80%	275.80%	114.10%	46.60%
	Annual Growth	5.60%	3.40%	3.80%	4.80%	9.50%	1.20%	27.60%	11.40%	4.70%

Source: Arizona Department of Economic Security, Population Estimates; Arizona Workforce

Chart 1
Population Comparison: 1975 - 2000



■ Scottsdale
 ■ Mesa
 ■ Glendale
 ■ Chandler
 ■ Tempe
 ■ Gilbert
 ■ Peoria

Income

Scottsdale consistently has one of the highest median household income figures of any city in Arizona. The median annual household income in Scottsdale in 2003 was \$59,596, compared to the Metro area average of \$45,776. Growth in median household income in Scottsdale between 1990 and 2000 was 47 percent, equal to the growth in the metro Phoenix area.

Scottsdale consistently has one of the highest median household income figures of any city in Arizona.

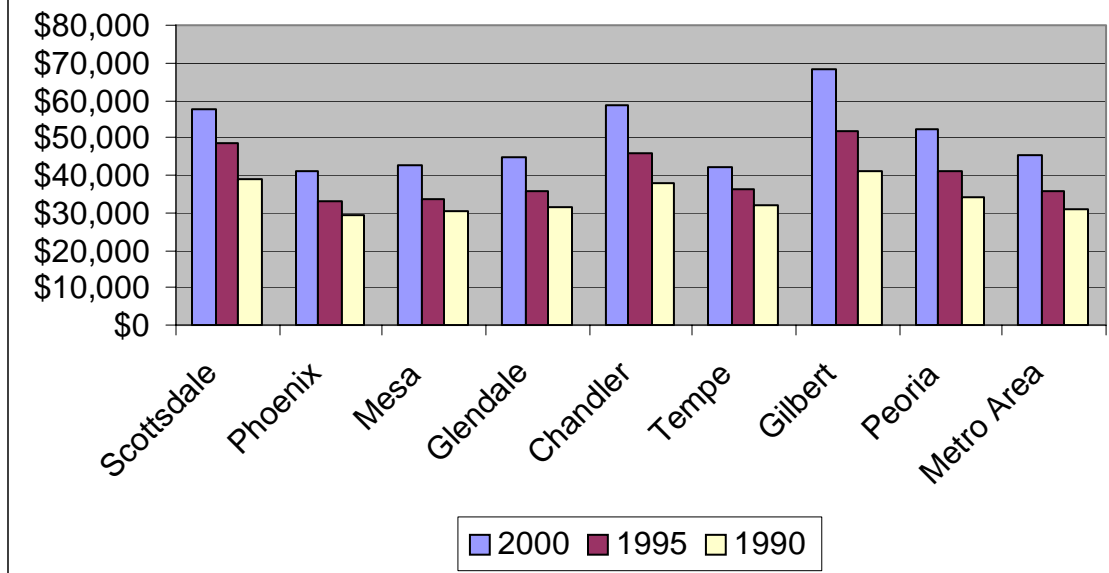
Table 2 and *Chart 2* (pg. 13) compare the median household income in several cities in the metro Phoenix area over 10 years.

Table 2
Median Household Income

City	2000 Median Household Income	1995 Median Household Income	1990 Median Household Income	Growth Rate 2000 vs 1990
Scottsdale	\$57,484	\$48,319	\$39,037	47%
Phoenix	\$41,207	\$32,950	\$29,291	41%
Mesa	\$42,817	\$33,676	\$30,273	41%
Glendale	\$45,015	\$35,483	\$31,665	42%
Chandler	\$58,416	\$46,096	\$38,124	53%
Tempe	\$42,361	\$36,049	\$31,885	33%
Gilbert	\$68,032	\$51,660	\$41,081	66%
Peoria	\$52,199	\$40,820	\$34,205	53%
Metro Area	\$45,358	\$35,623	\$30,797	47%
Scottsdale median income is higher than Metro Area Median Income by:	27%	36%	27%	

Source: Sites USA, 2002 US Census, 1995 Special US Census, 1990 US Census

Chart 2
Median Household Income



EMPLOYMENT OVERVIEW

Employment—including the number of jobs in the community, the job growth rate, unemployment rates, and comparisons of job growth to labor force growth and population growth—provide a better understanding of the economic nature of the community.

Scottsdale Employment

Table 3 gives a breakdown of Scottsdale's employment by industry for 2000 and projected for 2010. Business services and retail trade were the largest employment categories for 2000, and are projected to be the largest in 2010. The City of Scottsdale expects employment to grow by approximately 27,600 jobs, or 21 percent, from 2000 to 2010. Most industry categories will remain flat during that time. However, Finance, Insurance, and Real Estate employment (FIRE) is expected to decline slightly, while business services is projected to expand.

Table 4 (pg. 15) lists the 25 largest employers in Scottsdale, as of April 2005. Most are technology companies, retailers, resorts, insurance companies, health care organizations, educational institutions, and other service activities.

The City of Scottsdale expects employment to grow by approximately 27,600 jobs, or 21%, between 2000 and 2010.

Table 3
Scottsdale Employment by Industry and Year

	2000		2010	
	Employment	Percent	Employment	Percent
Agriculture	1,918	1.5%	2,225	1.4%
Business Services	26,848	20.9%	36,081	23.1%
Construction	7,077	5.5%	7,938	5.1%
Finance, Insurance, Real Estate	16,440	12.8%	18,141	11.6%
Health Industry	12,785	9.9%	14,934	9.6%
High Tech Manufacturing	8,138	6.3%	8,762	5.6%
Hospitality	14,652	11.4%	17,900	11.4%
Low Tech Manufacturing	2,985	2.3%	3,639	2.3%
Mining	122	0.1%	123	0.08%
Personal Services	8,446	6.6%	10,600	6.8%
Retail Trade	18,725	14.5%	23,507	15.0%
Transport	3,842	3.0%	4,038	2.6%
Wholesale Trade	6,674	5.2%	8,378	5.4%
TOTAL	128,652	100.0%	156,267	100.0%

Source: Gruen Gruen & Associates, "Analysis & Forecast of the Economic Base of Scottsdale," June 1999

Table 4
Largest Employers in Scottsdale

Rank	Company Name	Employees
1	Scottsdale Healthcare	4,400
2	General Dynamics	4,000
3	Mayo Clinic - Scottsdale	3,995
4	Scottsdale Unified School District	3,500
5	City of Scottsdale	2,191
6	CareMark (formerly AdvancePCS)	1,636
7	DMS Direct Marketing	1,500
8	Scottsdale Insurance Company	1,300
9	Fairmont Princess Resort	1,200
10	The Vanguard Group	1,120
11	Rural Metro Corporation*	875
12	McKesson	700
13	The Boulders Resort	680
14	USPS - Scottsdale	680
15	Dial Corporation	650
16	JDA Software Group	650
17	Desert Mountain Properties	638
18	First Health Group	610
19	Pegasus Solutions	600
20	E-Telecare Global Solutions	600
21	First National Bank of Arizona	530
22	Nordstroms	525
23	Hyatt Regency at Gainey Ranch	500
24	United Blood Services	498
25	Scottsdale Conference Resort	400

Source: City of Scottsdale

*As of July 2005, approximately 250 Rural Metro employees will become City of Scottsdale employees, due to contract changes.

Job Growth versus Labor Force Growth and Population Growth

One method of measuring the economic vitality of a city is by comparing rates of job growth with labor force growth rates and overall population growth rates. Between 1990 and 2000, Scottsdale experienced a 30 percent increase in job growth (jobs physically located within the City), compared to the Metro area's overall job increase of 29 percent. During the same time period, Scottsdale's labor force (persons between 18 and 65 years of age who live in the city and who are employed or actively seeking employment) grew by 30 percent, and its population grew by 36 percent. In 2000, there were more jobs located in Scottsdale than there were laborers (1.2 jobs per each Scottsdale resident in the labor force), a trend that has existed for the past 15 years. In contrast, the Phoenix metro area (Maricopa County) had a ratio of jobs to labor force of 0.97 to 1.0 in 2000.

Historically, Scottsdale was thought of as a bedroom community for Phoenix; however, for the past 15 years, it has been the greatest net importer of labor in the Metro area.

Table 5 compares the rates of job growth with the growth rates of the labor force and the overall population.

Traditionally, suburbs exported labor to a central city. Today, suburbs are coming into their own as employment centers. Historically, Scottsdale was thought of as a bedroom community for Phoenix; however, for the past 15 years, it has been the greatest net importer of labor in the Metro area.

Table 5
Job Growth, Labor Force Growth, and Population Growth

	Year	Scottsdale	Maricopa County
JOB GROWTH	1990	88,967	1,027,007
	1995	118,551	1,276,057
	2000	126,918	1,454,181
	% Change 1990 - 2000	43%	42%
LABOR FORCE GROWTH	1990	72,793	1,074,542
	1995	90,579	1,308,729
	2000	103,407	1,489,292
	% Change 1990 - 2000	30%	39%
POP. GROWTH	1990	130,069	2,122,101
	1995	168,176	2,551,765
	2000	202,705	3,072,149
	% Change 1990 - 2000	56%	45%
Ratio of Jobs to Labor Force:		1.23 to 1	0.97 to 1

Source: Arizona Department of Economic Security, City of Scottsdale Economic Vitality Department

Unemployment Rates

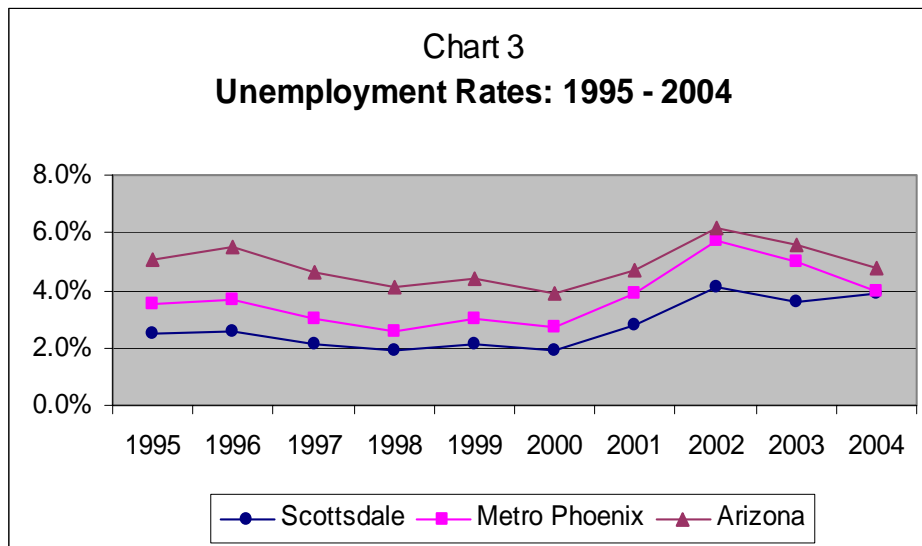
Scottsdale's unemployment rate parallels metro Phoenix' and Arizona's rates, but has consistently been approximately 30 percent lower than the unemployment rate for the Phoenix metro area, and over 40 percent lower than the State's unemployment rate. *Table 6* and *Chart 3* reflect this trend.

Between 1995 and 2004, Scottsdale's average unemployment rate ranged from a high of 4.1 percent in 2002, to a low of 1.9 percent in 1998 and 2000.

Table 6
Average Annual Unemployment Rates
1995 - 2004

Year	Scottsdale	Metro Phoenix	Arizona
1995	2.5%	3.5%	5.1%
1996	2.6%	3.7%	5.5%
1997	2.1%	3.0%	4.6%
1998	1.9%	2.6%	4.1%
1999	2.1%	3.0%	4.4%
2000	1.9%	2.7%	3.9%
2001	2.8%	3.9%	4.7%
2002	4.1%	5.7%	6.2%
2003	3.6%	5.0%	5.6%
2004	3.9%	4.0%	4.8%

Source: Arizona Department of Economic Security; Arizona Workforce



Employment Summary

Overall, the employment situation for Scottsdale looks very positive. The industries that employ significant numbers of Scottsdale's residents are the ones that are still growing, such as business services, technology, and tourism. Employment growth will help ensure a continued low unemployment rate.

Table 7 shows the companies with 10 employees or more that the City assisted in relocating or expanding in Scottsdale in 2004.

The Phoenix metro area added over 40,000 jobs in 2004, more than any other metropolitan areas except Washington D.C. and New York City.

Table 7
Companies Relocating/Expanding in Scottsdale*
Fiscal Year 2003/2004

Company Name	# of Employees	Type of Business
DBL	250	Electronics Distribution
TD2	10	BioMedical Research
Siggrist, Cheek & Potter	13	Financial Services
Scottsdale Mitsubishi	100	Automotive Sales
Aegis Assessments Inc	25	High Tech
Liberty Mutual	200	Insurance
IT Toolbox	20	Software/Internet Support
Nautilus Insurance	250	Insurance HQ
Taser International	180	Security/Weapons
MicroSemi	100	Semiconductor
McKesson	700	Insurance
I-ology	25	Technology/Internet
Arizona Subway Development	20	Regional HQ
DHL	250	Data Center
Total	2,143	

Source: City of Scottsdale

* This list represents successful, new targeted businesses which announced new locations in Scottsdale during Fiscal Year 03/04 (July 1 - June 30) to date which were assisted by the City of Scottsdale; it does not represent all new employers in Scottsdale.

NEW CONSTRUCTION

Scottsdale is a leader in the Metro area in terms of new construction, with significantly higher building permit valuations than expected for a city of its size. For the purposes of this study, trends in new construction activity are measured by the number and value of building permits.

Number of Residential Building Permits

The total number of residential building permits issued in Scottsdale has been steady over the last ten years, with a recent decline due to the city approaching residential build out.

A total of 2,013 residential permits were issued in Scottsdale in FY03/04, made up of 1,191 single family and 822 multi-family units permitted. The number of permits issued annually remains high, but Scottsdale has seen a declining trend over the last 10 years, as it is approaching build out, and custom and semi-custom homes are the norm. The overall number of permits has declined over the past five years due to decreases in the number of single-family homes.

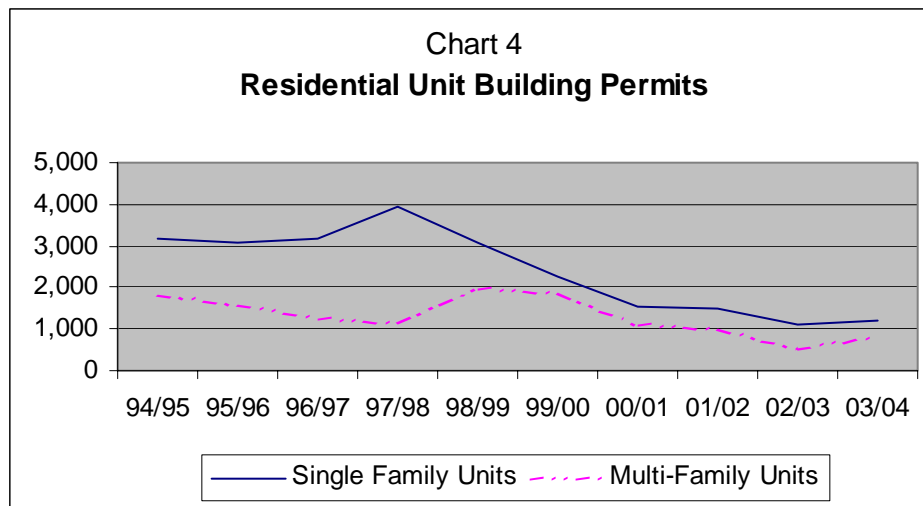
Table 8 (below) and *Chart 4* (pg. 20) summarize the number of residential unit permits issued in Scottsdale in FY04/05.

Scottsdale is a leader in the Metro area in terms of new construction, with significantly higher building permit valuations than expected for a city of its size.

Table 8
Residential Unit Building Permits

Fiscal Year	Single Family Units	Multi-Family Units	Total Units
1994/1995	3,173	1,840	5,013
1995/1996	3,059	1,574	4,633
1996/1997	3,185	1,262	4,447
1997/1998	3,960	1,144	5,104
1998/1999	3,075	1,988	5,063
1999/2000	2,246	1,875	4,121
2000/2001	1,550	1,114	2,664
2001/2002	1,510	1,026	2,536
2002/2003	1,084	543	1,627
2003/2004	1,191	822	2,013

Source: City of Scottsdale, Planning & Development, One Stop Shop



Value of Building Permits

The total value of all building permits granted in Scottsdale in 2004 was \$3.9 million. *Table 9* and *Chart 5* (pg. 21) compares Scottsdale's percentage of permit values and population to that of the Phoenix metro area. Scottsdale receives a greater percentage of new construction than would be expected for a city of its size. Over the last ten years, Scottsdale's building permit valuation, as a percentage of the total for the Metro area, has been in the range of 8-17 percent. In 2004, Scottsdale issued over 5.9 percent of the Phoenix metro area's building permit valuations.

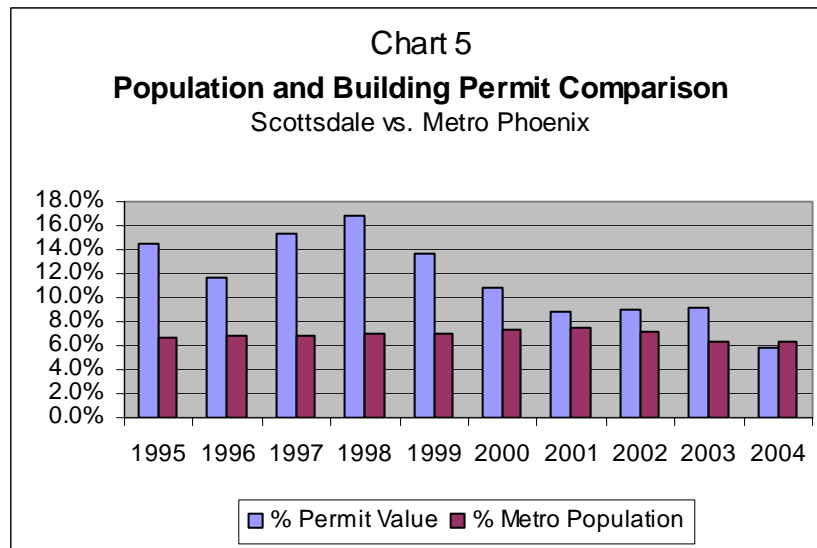


Scottsdale issued over 5.9% of the Phoenix metro area's building permit valuations in 2004.

Table 9
Value of Building Permits: 1995 - 2004

Calendar Year	Scottsdale	Maricopa County	Scottsdale's Percentage
1995	\$788,060,046	\$5,440,364,000	14.5%
1996	\$790,858,919	\$6,798,341,000	11.6%
1997	\$1,095,205,453	\$7,153,345,000	15.3%
1998	\$1,431,771,972	\$8,477,796,000	16.9%
1999	\$1,130,304,322	\$8,324,511,000	13.6%
2000	\$939,402,365	\$8,665,613,000	10.8%
2001	\$820,362,000	\$9,332,597,000	8.8%
2002	\$610,594,653	\$6,751,142,000	9.0%
2003	\$637,735,176	\$7,039,184,000	9.1%
2004	\$771,213,608	\$12,985,104,000	5.9%

Source: City of Scottsdale, Planning & Development; Maricopa County Department of Finance



VACANCY RATES

Table 10 (pg. 23) and *Table 11* (pg. 24) present commercial vacancy rates for various areas of the metro Phoenix area from 1999-2004. The data is broken down into submarkets of the Metro area that do not necessarily correspond to specific city boundaries. The Scottsdale submarket includes portions of surrounding municipalities, and Paradise Valley has its own submarket. Nevertheless, the data identifies general trends.

Office

The total vacancy rate for the Scottsdale office submarket in 2004 was 17.8 percent. North Scottsdale has been one of the fastest growing office markets in metro Phoenix, keeping a relatively low vacancy rate of 13 percent. The amount of vacant Class A space increased due to increased availability of Class B space at lower cost. Scottsdale's total office inventory in 2004 was 12 million square feet.

Retail

Vacancy in the metro Phoenix retail market decreased to 5.1 percent at the end of 2004 for several reasons. Construction of neighborhood centers and power centers continued throughout metro Phoenix, following the demand created by residential growth. The construction of the Loop 101 freeway has increased the development of retail centers in North Scottsdale and Phoenix along the freeway corridor. And the economy, which was adversely affected by the events of 9/11 has recovered.

Industrial

The Scottsdale Airpark, the industrial base for Scottsdale and Northeast Phoenix (east of State Route 51), experienced tremendous growth and in-fill activity this year. Scottsdale's built industrial inventory is almost completely occupied, though the trend to locate in the Airpark is expected to continue, and positive net absorption is expected. The Scottsdale/North East Phoenix industrial inventory for year-end 2004 was 4 million square feet, with 2.3 million square feet under construction.

Table 10
Commercial Vacancy Rates
 1999 - 2004
 Metropolitan Phoenix

OFFICE SUBMARKETS						
	1999	2000	2001	2002	2003	2004*
Downtown Phoenix	13.6%	8.6%	9.5%	15.7%	14.0%	
Camelback Corridor	9.9%	13.0%	6.8%	18.8%	18.8%	
East Phoenix	13.2%	9.9%	14.8%	19.9%	25.4%	
Freeway/Tempe	8.7%	12.4%	15.9%	22.1%	18.0%	
Mesa/Chandler	5.9%	11.2%	22.9%	21.0%	20.0%	
Northeast Phoenix	3.4%	11.2%	10.6%	25.3%	14.4%	
Scottsdale	10.8%	9.8%	14.6%	21.0%	15.1%	
Uptown Phoenix	7.3%	13.0%	13.2%	23.9%	26.3%	
West Phoenix	8.1%	10.6%	10.9%	26.3%	23.7%	
Total	9.6%	10.9%	12.4%	21.5%	20.5%	

* = 2004 has new office submarket classifications. Refer to Table 11

RETAIL SUBMARKETS						
	1999	2000	2001	2002	2003	2004*
Central Phoenix	8.3%	5.1%	5.7%	7.8%	4.6%	3.1%
Chandler/Gilbert	5.9%	4.4%	4.8%	6.1%	4.6%	4.1%
Mesa	8.0%	4.7%	6.1%	7.4%	6.0%	6.2%
North Central Phoenix	5.0%	4.6%	3.5%	3.7%	6.7%	7.2%
Northwest Phoenix	6.4%	6.2%	5.4%	9.3%	5.3%	5.3%
Scottsdale	7.7%	4.5%	3.8%	5.4%	6.8%	5.0%
South Phoenix	2.7%	1.5%	14.8%	16.7%	2.1%	7.2%
Tempe	9.2%	7.8%	4.6%	7.9%	5.8%	4.7%
West Phoenix	7.6%	6.7%	5.4%	10.1%	8.9%	4.8%
Total	7.2%	5.4%	5.1%	7.3%	5.9%	5.1%

* = Second half of 2004

INDUSTRIAL SUBMARKETS						
	1999	2000	2001	2002	2003	2004*
Black Canyon	10.7%	6.5%	2.2%	7.4%	7.7%	6.0%
Chandler	15.4%	24.8%	6.6%	8.5%	9.7%	11.4%
Glendale	19.2%	13.7%	4.7%	4.7%	4.3%	2.3%
Mesa/Gilbert	13.9%	15.2%	3.9%	15.7%	14.4%	8.3%
Northwest Phoenix	17.6%	15.4%	8.5%	8.0%	9.9%	16.4%
Scottsdale/NE Phoenix	9.8%	7.0%	3.7%	8.6%	10.3%	8.4%
Sky Harbor Airport	10.1%	10.3%	6.2%	11.8%	12.1%	12.5%
Southwest Phoenix	15.6%	23.0%	8.9%	15.9%	16.8%	15.7%
Tempe	12.8%	12.6%	6.0%	11.8%	11.0%	10.1%
West Central Phoenix	10.6%	6.9%	3.1%	8.5%	7.6%	9.3%
Total	12.8%	13.1%	5.7%	11.0%	11.1%	10.9%

* = 2004 fourth quarter

Source: Grubb & Ellis Market Trends: 1999, 2000, 2001, 2002, 2003, and 2004 editions

Table 11
Commercial Office Vacancy Rates
 2004
 Metropolitan Phoenix

OFFICE SUBMARKETS	
	2004*
Downtown Phoenix North	24.9%
Downtown Phoenix South	12.8%
44th Street Corridor	19.5%
Sky Harbor Airport Area	23.0%
Camelback Corridor	18.3%
Chandler/Gilbert	28.2%
Deer Valley/Airport	9.1%
Glendale	12.0%
Mesa Downtown	20.5%
Mesa East	19.6%
Midtown Phoenix	18.8%
NW Phoenix	17.6%
Paradise Valley	14.2%
Scottsdale Airpark	16.5%
Scottsdale North	13.0%
Scottsdale South	20.3%
Squaw Peak Corridor	17.5%
Sun City	11.3%
Superstition Corridor	14.5%
Tempe	12.2%
Tempe/South Chandler	16.0%
West Phoenix	44.2%
Total	17.8%

Source: Grub & Ellis Market Trends, 2004

* = 2004 fourth quarter

ASSESSED VALUATION PROPERTY TAX

Assessed valuation (the total value of property and improvements) is an excellent measure of the economic health and vitality of a community. It also provides the basis for computation of property tax.

Growth in Assessed Valuation

The secondary assessed valuation of property in Scottsdale has risen since FY94/95 from \$1.4 billion to nearly \$4 billion in FY03/04. This represents a 184 percent increase over a ten-year period. Steady increases since FY94/95 reflect a rebound in assessed valuation due to a healthy, stable valuation environment, coupled with new construction activity.

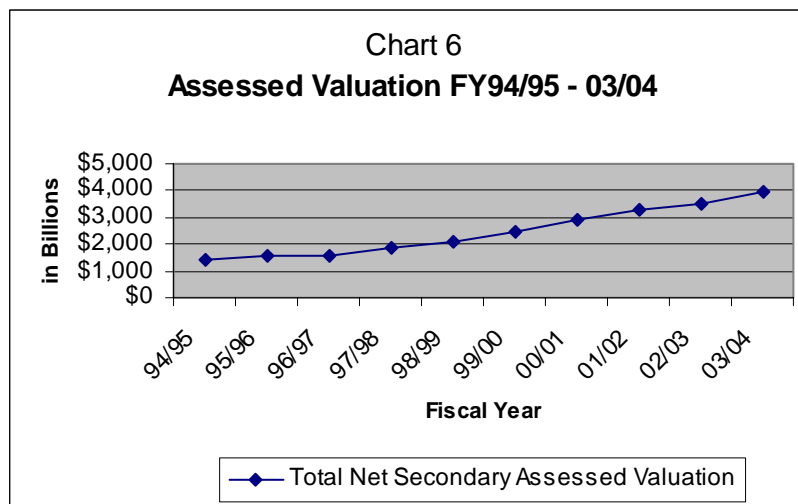
Table 12 and Chart 6 provide a view of assessed valuation in Scottsdale from FY94/95 to FY03/04.

Table 12
Change in Assessed Valuation
Fiscal Year 1994/1995 - 2003/2004

Fiscal Year	Total Net Secondary Assessed Valuation	Percent Change
1994/1995	\$1,399,126,000	3.4%
1995/1996	\$1,530,088,317	9.4%
1996/1997	\$1,591,800,942	4.0%
1997/1998	\$1,839,090,230	15.5%
1998/1999	\$2,102,351,943	14.3%
1999/2000	\$2,469,628,670	17.5%
2000/2001	\$2,877,733,056	16.5%
2001/2002	\$3,277,950,767	13.9%
2002/2003	\$3,526,604,612	7.6%
2003/2004	\$3,975,522,083	12.7%
% Change FY94/95 - FY03/04		35.2%

Source: City of Scottsdale, Financial Services Department

Notes: Arizona secondary assessed valuations reflect the "full cash" value of property; there are no restrictions on the growth rate of the values. As a comparison, primary assessed valuations are restricted in their growth rate. Secondary assessed valuations are used in this study, as they more accurately reflect actual market conditions.



Assessed Value Comparison

Tables 13 (below) and 14 (pg. 27) and Chart 7 (pg. 27) present a comparison of total assessed value per capita since FY94/95 for the City of Scottsdale and for Maricopa County. Scottsdale's assessed value per capita has been higher than the Maricopa County average for more than ten years. Not only is Scottsdale's figure double that of the rest of the Metro area, it is increasing at a faster rate than its population. As previously noted, Scottsdale has become a major regional employment center with more commercial growth than residential growth. This commercial growth helps strengthen the economic base of the community and cushions the community from economic downturns.

Scottsdale has become a regional employment center with more commercial growth than residential growth. This commercial growth helps strengthen the economic base of the community and cushions the community from economic downturns.

Table 13
Total Assessed Valuation (millions)*
Fiscal Year 1994/1995 - 2003/2004

Fiscal Year	City of Scottsdale	Maricopa County
1994/1995	\$1,399	\$13,521
1995/1996	\$1,530	\$14,119
1996/1997	\$1,592	\$14,343
1997/1998	\$1,839	\$15,723
1998/1999	\$2,102	\$16,813
1999/2000	\$2,469	\$18,676
2000/2001	\$2,878	\$20,878
2001/2002	\$3,277	\$22,913
2002/2003	\$3,527	\$25,457
2003/2004	\$3,976	\$24,478

Source: City of Scottsdale, Financial Services Department; Maricopa County Finance Department

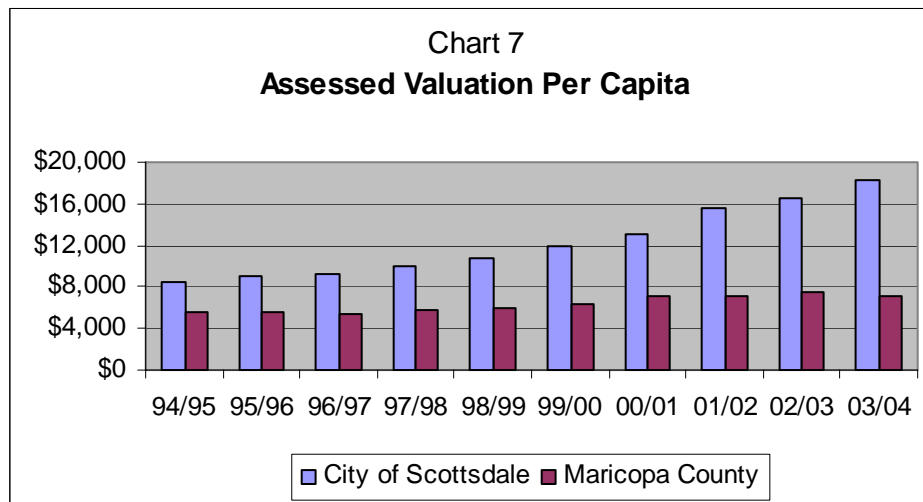
* Based on total net secondary assessed valuation figures.

Table 14
Assessed Valuation Per Capita*
 Fiscal Year 1994/1995 - 2003/2004

Fiscal Year	City of Scottsdale	Maricopa County
1994/1995	\$8,546	\$5,508
1995/1996	\$9,097	\$5,533
1996/1997	\$9,148	\$5,444
1997/1998	\$10,048	\$5,779
1998/1999	\$10,754	\$5,991
1999/2000	\$11,966	\$6,410
2000/2001	\$13,081	\$7,067
2001/2002	\$15,552	\$7,178
2002/2003	\$16,473	\$7,420
2003/2004	\$18,274	\$7,206

Source: City of Scottsdale, Financial Services Department; Maricopa County Finance Department

* Based on total net secondary assessed valuation figures.



Property Tax Comparison

Table 15 compares the overall property tax rates and the average annual property tax bills for Scottsdale and other major communities in the Phoenix metro area. On average, the property tax bills in other Metro area cities are approximately 36 percent higher than in Scottsdale.

That translates into an annual savings of about \$83,693 on a \$10,000,000 commercial building, and a \$335 savings on a \$100,000 single-family residence. Because of Scottsdale's strong economic base, taxes on local residents and businesses are lower than in other cities, while city service levels remain high.

Table 15
Property Tax Comparison*

				Average Annual Property Tax Rate On:	
City	School District	Total Tax Rate	Variance from Scottsdale	\$100,000 Single Family House	\$10,000,000 Commercial Building
Scottsdale	Scottsdale 48*	\$9.30	0.00	\$930	\$232,480
Phoenix	Phoenix 1	15.53	6.23	1,553	388,273
	Wilson 7	14.92	5.62	1,492	372,900
	Osborn 8	11.93	2.63	1,193	298,185
	Creighton 14	13.38	4.08	1,338	334,568
	Balsz 31	12.46	3.16	1,246	311,418
	Madison 38	12.05	2.75	1,205	301,133
	Paradise Valley 69	11.45	2.15	1,145	286,160
	Deer Valley 97	11.88	2.58	1,188	297,048
Tempe	Tempe 3*	11.57	2.27	1,157	289,223
Mesa	Mesa 4*	9.87	0.57	987	246,813
Glendale	Glendale 40	14.88	5.58	1,488	372,003
Chandler	Chandler 80*	11.37	2.07	1,137	284,340
Gilbert	Gilbert 41*	12.23	2.93	1,223	305,743
Peoria	Peoria 11	13.09	3.79	1,309	327,310
Avg. variance compared to Scottsdale:			3.32		

Source: City of Scottsdale, Finance Department

* Includes County, Community College, City, School District, County-wide Special Districts, County Education Districts, and (where applicable) EVIT or WESTMEC.

The main school district in each community was used for comparison.

Not included in this analysis is the Homeowner's Rebate. Pursuant to ARS 15-972, the tax rate levied by school districts is reduced for homeowners, not to exceed \$500, through the rebate.

SALES TAX COLLECTIONS

Sales tax collections are very important to Scottsdale because the City receives a far greater percentage of revenue from sales taxes than from other revenue sources.

Growth in Adjusted Sales Tax Collections

Scottsdale's adjusted sales tax collections have risen at a rapid rate from \$52.2 million in FY94/95, to \$118.2 million in FY03/04. Sales tax collections for FY04/05 were 6.7 percent above last year's tax collections.

Table 16 shows the growth in Scottsdale's sales tax collection from FY94/95 through FY03/04.

Table 16
Growth in Sales Tax Collections
Fiscal Year 1994/1995 - 2003/2004
(compared on an adjusted 1% rate basis)

Fiscal Year	Sales Tax Collections	% Change
1994/1995	\$52,237,294	16.2%
1995/1996	\$66,827,503	27.9%
1996/1997	\$74,729,359	11.8%
1997/1998	\$84,825,508	13.5%
1998/1999	\$97,780,147	15.3%
1999/2000	\$108,033,945	10.5%
2000/2001	\$113,538,992	5.1%
2001/2002	\$111,760,545	-1.6%
2002/2003	\$110,813,432	-0.9%
2003/2004	\$118,271,696	6.7%

Source: City of Scottsdale, Financial Services Department

Sales Tax Collection Comparisons

Table 17 (pg. 30) presents each of the major Metro area cities' sales tax collections since FY95/96. Tax rates have changed for each city in the last decade.

- ◇ The City of Scottsdale's sales tax rate was increased from 1.2 percent to 1.4 percent in July 1995, and was then raised to 1.65 percent in July 2004.
- ◇ Phoenix' sales tax rate rose from 1.3 percent to 1.4 percent in November 1998; and, as of June 2000, climbed to 1.8 percent.
- ◇ Tempe's sales tax rate was 1.2 percent until FY95/96, and has been 1.8 percent since January 2002.
- ◇ Mesa's sales tax rate was 1.0 percent until August 1998, when it increased to 1.5 percent.
- ◇ Chandler's tax rate was raised from 1.0 percent to 1.5 percent in May 1994.
- ◇ Gilbert's sales tax rate has been 1.5 percent since sales tax revenue began to be recorded in FY99/00.
- ◇ Peoria's sales tax rate has been 1.5 percent since sales tax revenue began to be recorded in FY99/00.

Sales Tax Collection Comparisons (continued)

Table 18 and *Chart 8* (pg. 31) compare per capita sales tax collections. Scottsdale leads all other cities in per capita sales tax collections by a substantial margin. Prior to FY93/94, Scottsdale, along with most of the other Valley communities, showed very little change in sales tax collections. In FY94/95, however, strong increases in sales tax collections occurred in many Valley communities for a variety of reasons, including population growth and housing construction. The per capita sales tax comparison (*Table 18*) shows population growth in a number of Valley communities offsetting gains in sales tax revenues.

Beginning in FY98/99, sales tax revenue calculations in this report were changed to reflect sales tax revenues collected exclusively for the General Fund. The reason for this change was to be able to compare all cities' sales tax revenues on the same basis. It was a substantial change for the Phoenix sales tax revenues because, in prior years, revenue that went to other funds was included in the total sales tax revenue figures.

Scottsdale leads all other Metro area cities in per capita sales tax collections by a substantial margin.

Table 17
Total Sales Tax Collections (millions)
Fiscal Year 1994/1995 - 2003/2004

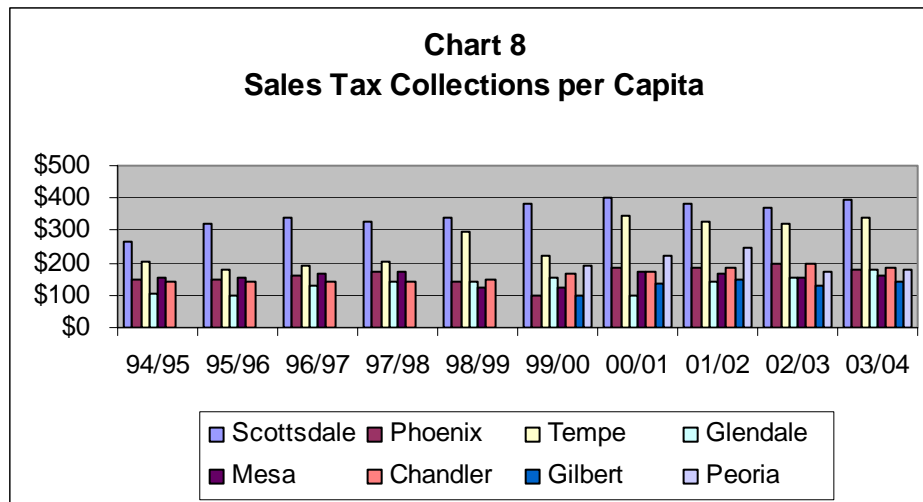
Fiscal Year	Scottsdale	Phoenix	Mesa	Glendale	Chandler	Tempe	Gilbert	Peoria
1994/1995	\$52.20	\$209.90	\$50.10	\$23.60	\$27.80	\$45.70	n/a	n/a
1995/1996	\$68.10	\$288.40	\$54.60	\$24.90	\$30.10	\$48.40	n/a	n/a
1996/1997	\$75.70	\$296.30	\$57.40	\$32.30	\$32.20	\$50.80	n/a	n/a
1997/1998	\$85.90	\$317.80	\$62.90	\$36.50	\$35.00	\$56.70	n/a	n/a
1998/1999	\$98.30	\$254.40	\$66.40	\$39.80	\$41.40	\$57.50	n/a	n/a
1999/2000	\$108.10	\$223.80	\$70.70	\$42.90	\$44.40	\$60.50	\$15.80	\$22.50
2000/2001	\$113.50	\$480.50	\$102.30	\$44.60	\$50.50	\$98.90	\$25.10	\$26.20
2001/2002	\$111.70	\$477.00	\$102.60	\$51.60	\$57.70	\$94.60	\$28.70	\$29.10
2002/2003	\$110.80	\$478.60	\$98.90	\$63.70	\$58.00	\$92.70	\$29.34	\$35.90
2003/2004	\$118.30	\$504.30	\$105.40	\$74.80	\$66.70	\$95.70	\$34.90	\$40.50

Source: City of Scottsdale, Financial Services Department and Economic Vitality Department

Table 18
Sales Tax Collections Per Capita
 (General Fund collections adjusted to 1%)

Fiscal Year	Scottsdale	Phoenix	Tempe	Glendale	Mesa	Chandler	Gilbert	Peoria
1994/1995	\$263	\$149	\$206	\$105	\$152	\$145	n/a	n/a
1995/1996	\$320	\$151	\$182	\$98	\$156	\$143	n/a	n/a
1996/1997	\$337	\$159	\$189	\$130	\$164	\$142	n/a	n/a
1997/1998	\$330	\$175	\$206	\$139	\$170	\$141	n/a	n/a
1998/1999	\$339	\$140	\$298	\$144	\$121	\$148	n/a	n/a
1999/2000	\$380	\$100	\$220	\$156	\$121	\$167	\$96	\$190
2000/2001	\$400	\$184	\$346	\$101	\$172	\$173	\$134	\$220
2001/2002	\$380	\$184	\$330	\$144	\$165	\$188	\$151	\$249
2002/2003	\$370	\$195	\$323	\$156	\$154	\$199	\$129	\$174
2003/2004	\$392	\$176	\$338	\$178	\$162	\$185	\$141	\$179

Source: City of Scottsdale, Financial Services Department



OTHER INDICATORS

Two factors that have tremendous importance to the Scottsdale economy are tourism and education. Tourism generates millions of dollars in economic activity in the City each year. Quality education also has enormous economic impact, although more indirect than tourism. Education affects the quality of the workforce in a community, thereby attracting businesses—and investment—to the City.

Growth in Tourism

The tourism industry is a very important part of economic activity in the City of Scottsdale, generating over \$2.6 billion in total economic activity within the community in 2004.

Smith Travel Research reported Scottsdale's 2004 occupancy was 66.6 percent, and the average room rate was \$134.20. Occupancy has increased consistently over the last 10 years, the exception being a one-year decrease from 2000 to 2001.

In 2004, 635 hotel rooms were lost, due, in part, to the closing of the Holiday Inn SunSpree Resort (200 rooms), and the Marriott Mountain Shadows Resort (337 rooms).

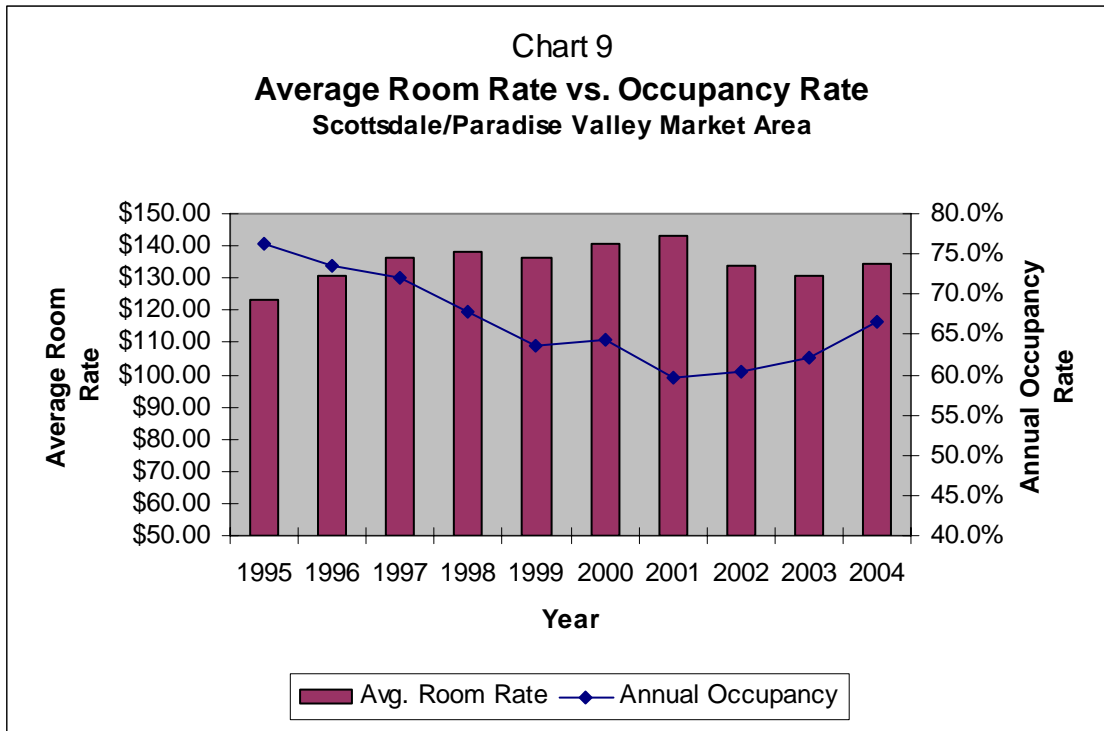
Bed tax revenues totaled \$7.4 million in 2004, a slight increase from 2003. Over the past ten years, total bed tax collections (3 percent of room revenues) have ranged from \$4.6 million in 1994 to \$7.6 million in 2000. Tourism is one of the most significant sources of revenue for the City of Scottsdale's operations.

Chart 9 (pg. 33) shows the average room rate versus the occupancy in the Scottsdale/Paradise Valley market area over a 10-year span.

Table 19 (pg. 34) presents the growth in tourism (number of hotel rooms, average room rate, average occupancy rate, and bed tax collections) in Scottsdale/Paradise Valley over the past decade.

Chart 10 (pg. 34) shows Scottsdale's bed tax collections from 1995 to 2004.

Tourism is one of the most significant sources of revenue for the City of Scottsdale's operations and budget.



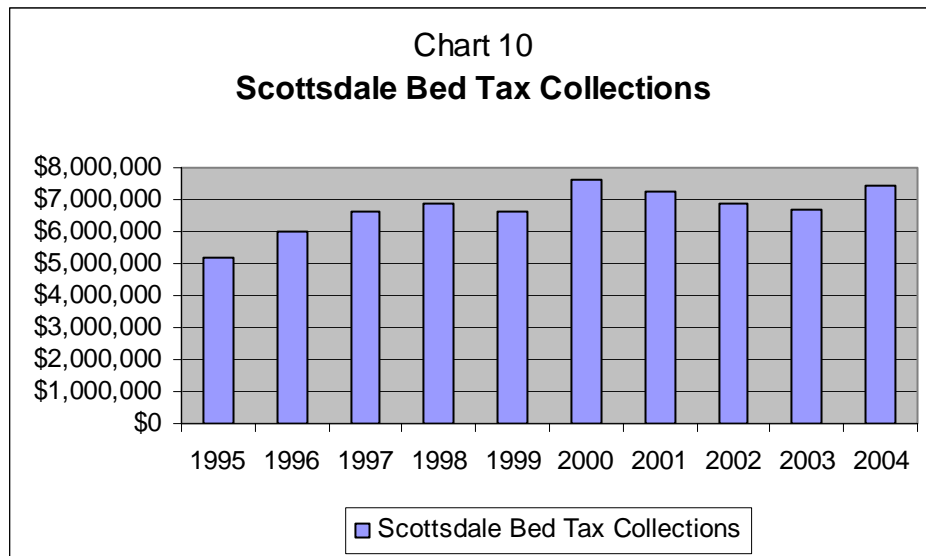
Source: City of Scottsdale, Economic Vitality Department, "Tourism Study Part I: Lodging Statistics" report

Table 19
Growth in Tourism
 1995 - 2004 Scottsdale/Paradise Valley Market Area

Year	Hotel Room Inventory	Average Room Rate	Average Occupancy	Scottsdale Bed Tax Collections*
1995	8,867	\$123.28	76.3%	\$5,185,043
1996	9,197	\$130.60	73.5%	\$5,986,818
1997	10,527	\$136.25	72.1%	\$6,623,443
1998	11,061	\$138.40	67.9%	\$6,878,352
1999	12,755	\$136.56	63.5%	\$6,626,425
2000	13,150	\$140.53	64.3%	\$7,619,693
2001	13,248	\$143.34	59.7%	\$7,276,496
2002	15,092	\$133.63	60.3%	\$6,846,846
2003	15,484	\$130.84	62.2%	\$6,713,203
2004	14,849	\$134.20	66.6%	\$7,439,590

Source: Smith Travel Research; City of Scottsdale, Economic Vitality Department

* = Bed tax collection figures represent Scottsdale hotels *only*



Educational Quality

The quality of education in a community is one of the most important factors in decision making by companies looking to expand or relocate because it directly impacts the quality of the labor force. Education is also a major factor in people's decisions about where to live, as everyone wants to provide the best education possible for their children.

The Scottsdale Unified School District has consistently had one of the highest rated school districts in the Phoenix metro area, with average standardized test scores comparable only to Cave Creek District (located, in part, in Scottsdale) and Kyrene Elementary District. Although the Scottsdale School District boundaries do not completely correspond with Scottsdale's city limits, approximately 92 percent of all school age children in Scottsdale are located within this district. The remaining children attend school in the Paradise Valley or Cave Creek School Districts, both of which have high overall test scores.

Table 20 (pg. 36) compares the Scottsdale Unified School District with other school districts in the metro Phoenix area.

Bond Rating

A high bond rating reflects the credit industry's faith in Scottsdale's ability to repay outstanding debt. Higher rated bonds indicate less risk to prospective bond buyers, which translates to lower interest costs for the city and its citizens. Scottsdale's general obligation bond rating was upgraded to AAA by Fitch IBCA in 1999. In 2001, both Standard & Poor's Rating Service and Moody's Investor Service upgraded the City's rating to AAA.

Scottsdale's outstanding ratings reflect the quality of growth in the community and the City's ability to manage it. The City has substantial reserves set aside to combat an economic downturn, it has high property values and household incomes, and it has a strong financial management track record.

A high bond rating reflects the credit industry's faith in Scottsdale's ability to repay outstanding debt.

Table 20
Selected Metro Phoenix School Districts
 2003/2004 School Year

School District	Enrollment Total 2003/04	2003/2004 Stanford 9 Achievement Test											
		Fourth Grade			Eighth Grade			Ninth Grade					
		Reading	Math	Language	Reading	Math	Language	Reading	Math	Language	Reading	Math	Language
Scottsdale Unified	26,559	77	79	69	72	74	71	59	78	59			
Cave Creek Unified	5,338	77	73	69	73	76	71	59	76	56			
Chandler Unified	26,915	66	68	59	60	62	60	49	70	51			
Deer Valley Unified	31,691	69	74	63	62	70	61	50	71	50			
Glendale Elementary/ Glendale Union HSH	13,258 14,515	32	36	32	35	36	27	45	71	50			
Mesa Unified	75,401	62	68	55	60	73	58	51	76	54			
Paradise Valley Unified	34,884	69	69	63	62	73	62	53	71	54			
Phoenix Elementary/ Phoenix Union HSD	8,340 23,989	38	44	43	39	50	36	26	44	26			
Kyrene Elementary/ Tempe Union HSD	18,579 13,717	74	78	66	71	75	70	52	75	51			
Maricopa County	643,753	59	62	54	58	63	55	46	67	47			
Arizona	1,012,068	56	61	52	55	61	52	42	63	42			
U.S.	53,298,575	50	50	50	50	50	50	50	50	50			

Source: Arizona Department of Education, 2003/04 Stanford 9 Achievement Test; Arizona Workforce; US Census

ECONOMIC OUTLOOK

The Blue Chip Panel of the Bank One Economic Outlook Center is composed of economists from a variety of major public and private sector organizations that track economic trends and provide a monthly economic forecast for Arizona and the greater Phoenix area. The following section summarizes recent economic forecasts of the Blue Chip Panel.

Economic Forecast

Tables 21 and 22 (pg. 38) outline a series of economic indicators, as well as the most recent forecasts made by this group for anticipated changes for 2005 and 2006. The tables include data for the following three areas:

Employment

Wage and salary employment growth is expected to increase in the Phoenix metro area, continuing the recovery started early in 2003. A 2.5 percent increase in employment is expected in 2005, continuing the recovery from two years of negative growth (2001 – 2003). Increased employment is a result of the forecasted resurgence of the national economy.

Real Estate

The housing market set new records in 2004. Minor declines in permitting are expected in 2005 and 2006, but are still strong, by historic standards.

Office absorption is projected to exceed construction by almost 500,000 square feet in 2004 and 2005. Construction is expected to remain modest over the next few years.

Real Estate (continued)

Industrial vacancy rates are expected to decline to under 8 percent by 2006. Market absorption is expected to exceed construction in 2005 and 2006.

Economy

Though national economic performance has been uncertain, the metro Phoenix economy has held its own. However, because of the nationwide uncertainties, the metro Phoenix area is not doing as well as it normally would at this point in the economic cycle.

Table 21
Economic Forecast
 State of Arizona and Metropolitan Phoenix

Growth Indicator	Economic Forecast for 2004 (vs. 2003)	Economic Forecast for 2005 (vs. 2004)
Population Growth		
Arizona:	2.8%	2.9%
Metro Phoenix:	2.6%	3.0%
Current Personal Income		
Arizona:	6.9%	7.4%
Metro Phoenix:	5.7%	7.5%
Retail Sales		
Arizona:	6.4%	7.0%
Metro Phoenix:	5.1%	7.1%
Wage & Salary Employment Growth		
Arizona:	3.6%	3.8%
Metro Phoenix:	2.5%	4.2%
Manufacturing Employment		
Arizona:	2.1%	2.8%
Metro Phoenix:	1.1%	2.7%
AZ Real Personal Income	5.0%	5.2%
AZ Single-family Units	0.4%	(2.7%)
US GDP Deflator	1.9%	2.2%

Source: ASU Blue Chip Economic Forecast Arizona, March 2005; ASU Blue Chip Economic Forecast Phoenix, March 2005

Table 22
Economic Outlook
 State of Arizona and Metropolitan Phoenix

Economic Indicator	Average Rate for 2005
Unemployment Rate	
Arizona:	4.4%
Metro Phoenix:	4.0%
Avg. U.S. 3 mo. T-Bill Rate:	3.0%
Avg. U.S. 10 yr. Treasury Notes:	5.0%

Source: Blue Chip Economic Forecast Arizona, Mar. 2005; Blue Chip Economic Forecast Phoenix, Mar. 2005